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//C O R R E C T E D C O P Y -- CLASIFICTION BY LINE ADDED//

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TAGS: [ECON](#) [EPET](#) [PREL](#) [PGOV](#) [AJ](#)
SUBJECT: AZERBAIJAN ENERGY: BP BRIEFS AMBASSADOR ON BTC,
SHAH DENIZ, IRAN AND CHANGES AT SOCAR

Classified by Amb Reno L. Harnish III, Reasons 1.4(b) and (d).

¶1. (C) SUMMARY: Ambassador Harnish met with AIOC President David Woodward (Strictly Protect) January 31 to review AIOC, BP and Azerbaijan energy activities. Woodward updated Ambassador Harnish on progress of the BTC pipeline, now scheduled for completion in May. Woodward explained that due to the pipeline's slow construction and limited oil export routes, BP has been forced to stop production when local storage areas become full. Regarding the gas pipeline Shah Deniz, Woodward reported good progress on pipeline construction and indicated that by the third quarter of 2006 gas should be flowing to Turkey. Woodward told the Ambassador that BP has decided against participating in any oil swaps with Iran as a way to manage excess oil production. In addition, he noted that SOCAR has told BP that no Iranian gas is flowing to Georgia through Azerbaijan. END SUMMARY.

¶2. (U) On January 31, Azerbaijan International Operating Company (AIOC) President David Woodward briefed Ambassador Harnish and the UK Ambassador at their regular monthly meeting regarding AIOC's oil and gas operations, pipeline construction progress and issues at the State Oil Company of Azerbaijan (SOCAR).

¶3. (SBU) Baku-Tbilisi-Ceyhan Progress: BTC pipeline construction in Turkey has recently accelerated and BP hopes that the pipeline will be completed by the end of May followed by a June celebration. Oil in the pipeline is being stocked at a pump station in Turkey and is being allowed to flow into new pipeline sections as they are completed. Additional AIOC oil is being exported through the western and northern routes as well as by railroad. Despite these exports, Woodward indicated more oil is being pumped than current local storage can handle which is causing production shutdowns. BP has explored the expansion of the Batumi railroad but has discarded this idea since it appears to be at full capacity.

¶4. (C) BP-Iran Oil Swaps: Woodward indicated that based upon discussions with the USG, BP has decided not to do any oil swaps with Iran. (BP had been considering the swaps with Iran as a way to manage excess production prior to completion of BTC.)

¶5. (SBU) Shah Deniz: Woodward reported good progress on the Shah Deniz gas pipeline. In March or April (depending upon weather conditions), BP hopes to float and install the primary gas platform in the Caspian Sea. By third quarter 2006 the platform should begin pumping gas and the first delivery could arrive by the end of September or early October in Turkey. Whether Turkey is able to take the gas is another issue. Excess gas could be shipped to a third party, such as Georgia, although the issue of pricing could kill any deals. Responding to demands by GOAJ for more gas, BP would like to negotiate a deal with SOCAR on the terms for taking ACG gas although it would prefer to reinject its gas into the field. The discussions with SOCAR, however, have been difficult and no decision has been reached.

¶6. (C) Shah Deniz Gas to Europe: Ambassador Harnish and Woodward discussed efforts to have Azerbaijani gas reach Europe. Based on recent conversations with EUR DAS Bryza, Woodward indicated that BP is exploring the idea and is attempting to identify areas where BP could assist. Woodward added that BP is looking to "steer" USG involvement on this issue in order to ensure the USG "hits the best areas." Ambassador Harnish and Woodward noted that European energy regulations prohibit consortiums (including AIOC) from jointly marketing oil and gas in Europe.

¶7. (SBU) Regional Energy Security: BP will prepare a detailed briefing on regional energy security issues for Ambassador Harnish, REO and the U.K. Ambassador.

¶8. (SBU) Iranian Gas to Georgia: Woodward said that SOCAR has told BP that no/no Iranian gas is flowing through Azerbaijan to Georgia. Presented with additional queries regarding the Iranian gas issue, Woodward indicated he would find out the latest details and provide more information at the regional energy security briefing.

¶9. (C) SOCAR Paralysis: Woodward complained that SOCAR's

management and decisionmaking processes have become paralyzed with the new leadership. Getting items approved has proven to be extremely difficult. Woodward blamed part of SOCAR's problems on the new management. In some instances, Woodward noted that BP is having to "educate" the SOCAR management team on a variety of technical energy issues. Woodward also indicated that it appeared SOCAR was uninterested in discussing any additional oil or gas exploitation projects. He mentioned that some in SOCAR appear to believe that with BTC and Shah Deniz projects approaching completion, no future exploitation plans were necessary. Woodward indicated that SOCAR may lack the capacity to look forward and appeared to want to wait until a future date to begin discussions on future plans.

¶10. (C) New Minister of Industry and Energy: Regarding the new Minister of Industry and Energy Natic Aliyev, Woodward opined that Aliyev was more focused on the development of Azerbaijani industry rather than on its energy policy. Most observers had expected that Aliyev, former President of SOCAR, would take control of all of Azerbaijan's energy resources (including SOCAR's) and organize GOAJ energy policy. Woodward observed that Aliyev may have been named minister in order to "fix" Azerbaijan's industry development.

¶11. (SBU) Avian Influenza: Woodward indicated that BP was interested in coordinating AI information with U.S. and U.K. embassies and that BP was reviewing global corporate contingency planning in the event of an AI outbreak in order to maintain "business continuity."

HARNISH